



Financial Affairs Committee
July 25, 2003

1. Participants

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| --Ron Jacobsma, FWUA | --George Senn, CVPWA |
| --Russell Harrington, Westlands WD | --Robert Stackhouse, CVPWA |
| --Lynn Hurley, SCVWD | --Frances Mizuno, SLDMWA |
| --Dennis Michum, GCID | --Mike Hagman, TCCA |
| --Lee Emrick, Colusa County WD (Call-in) | --Brice Bledsoe, Contra Costa WD |
| --Ara Azhderian, San Luis WD | --Cheryl Pritchett, SCVWD |
| --Kathryn Kitchell, City of Roseville | --Jerry Toenyes, NCPA |
| --Jeff Phipps, NCPA | --Len Marino, DWR |
| --Dee Dillon, SWC | --Mike Finnegan, BOR |
| --Larry Bauman, BOR | |

2. Opening Business

The July meeting was held in the ACWA Office upstairs Conference Room, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded around 12:30 p.m. The next meeting will be held on September 12 at a still to be decided location near the Banta Carbona Fish Screen facility. The agenda was reviewed and approved with one item added—discussion of the FAC structure.

3. FAC Issues Matrix Status.

- A. **Capital Ratesetting and Cost Recovery.** Mike reported that the issue is still a priority, but because of other pressing work, it will probably not get going again until after the end of the fiscal year.
- B. **PUE Issues--Post 2004 O&M Sub-allocation.** Mike reported that Martin Bauer had presented to Reclamation's Regional Management, a draft proposal based on the work the Post 2004 Power O&M Cost Sub-allocation team had recently completed. The proposal has been reviewed by Reclamation's technical review group and by Western staff. Mike said there have been no significant modifications to the team's proposal. Mike said that Reclamation will hold an information workshop on the proposal in late August and a final policy document will be prepared sometime in September.

Jerry Toenyes commented that the NCPA was looking into having the CVP Corp, which is a member organization made up of CVP preference power contractors, commit to

Reclamation that it would fund the power purchases needed to meet PUE shortfalls when CVP generation cannot meet project pumping load requirements. Under the Post 2004 proposal, the water contractors would incur additional O&M costs of approximately \$345,000 every year toward the purchase of energy to meet CVP generation shortfalls and the Preference Power contractors would pay anything above that amount. Over a 70-year hydrologic study period the PUE and Preference Power contractors would pay an equal amount for the needed PUE—PUE would avoid having to pay as much as \$10 million in any one year.

- C. **Cost Recovery for CVPIA Programs/Activities.** Mike mentioned that this issue would be discussed during a meeting later in the day. Following are the highlights of that meeting.

Mike passed out a final draft of Mid-Pacific Region Business Practices Guidelines for CVPIA Program Accounting and Cost Recovery that resulted from almost two years of work by members of the FAC and Reclamation staff. His staff also presented two spreadsheets that showed the results of their detailed reconciliation of CVPIA expenditures, credits, and offsets. As of September 30, 2002, Reclamation and the F&WS had spent \$525 million on CVPIA programs/activities (excluding those still in Construction in Progress), of which \$280 million was considered to be reimbursable. Reclamation's reconciliation efforts determined that about \$292 million in Restoration Fund revenues had been spent on CVPIA programs/activities as of September 30, 2002, some \$12 million more than was considered to be reimbursable. Reclamation also determined that some \$3.5 million in interest-during-construction (IDC) charges and \$1.1 million in interest-on-investments had not been included in earlier cost computations and thus reduced the \$12 million amount to \$7.5 million.

Mike said that he hopes to finalize the Business Practices Guidelines within the next few days. He plans to notify the water and power contractors of the guidelines and respond to the CVP Water Association letter regarding the CVPIA cost recovery effort by August 29.

- D. **CFO Audit Adjustments.** Ron reported that the water contractors are still working with Washington D.C. representatives to get a legislative fix regarding Reclamation's position that it cannot capitalize expenditures for facilities to which it does not hold title. Reclamation contends that it must expense such expenditures and recover them in one year rather than spreading the costs over the life of the facility.
- E. **BOR WORKS Water Accounting Program Development and Training.** Mike reported that the new water accounting system (BOR WORKS) is working well. He said the first year is a shakedown--his staff is working on some security issues and will be adding enhancements to the system to make it more responsive to customer needs. He said that everyone would benefit from using the new water accounting program. Reclamation has provided training to its area offices, to selected water contractors, authority and association members, and to the San Luis & Delta-Mendota Water Authority. Ron reported that the Friant Water Users Authority staff had been working

with Reclamation to set up this training in the next month or so.

4. **Status of Draft FY2002 Final Accountings.** Larry reported that the fiscal year 2002 M&I and Irrigation final accountings are essentially completed and will be sent out next week. He noted that Reclamation delayed sending out the accountings on July 16th to accommodate review and necessary changes as a result of the comments received from the water contractors. He said the question as to the flood claims associated with the Arroyo Pasajero flooding that were included in the draft final accountings was addressed. Of the \$3.1 million shown in the draft final accountings, \$2.7 million was left in the final accountings, while the remaining \$400,000 was excluded and is subject to further research. If they are determined to be legitimate expenses, they will be included in next year's final accountings. Since these charges predate the San Luis Delta Mendota Water Authority Self-Funding agreement, these charges will not be direct billed to the Authority, but will instead be included as a pooled conveyance O&M expense and allocated to conveyance contractors based on the year (1995) that these costs were incurred.

Larry said that the Provision for Replacements (PFR) interest adjustments have been completed for M&I. The Irrigation PFR adjustments are completed, except for the Sacramento River contractors (those who chose to repay their CFO adjustment charges over a 5-year period). Reclamation's priority was to complete the PFR adjustments for those who chose to apply surpluses from the 2001 and 2002 years. These interest adjustments, although not included in the final accountings, will be included in the 2002 statements that will be sent out in October 2003.

5. **PUE Cost Escalations.** Frances Mizuno reported that CVP Power O&M costs have been increasing over the past six years at an alarming rate. She provided a spreadsheet that showed total Reclamation and Western power O&M expenses that have been allocated to the CVP Power function during the period FY1997 thru FY2002. Total power O&M costs allocated to the Power function increased from \$37 million in FY1997 to \$59 million in FY2002. She asked that the CVPWA FAC look into these increases. Jerry Toenyes agreed to coordinate with Ed Roman on the Preference Power side and Ara Azhderian will work with Chase Hurley, Russ Harrington and George Senn on the PUE side to determine what is causing the power O&M costs to skyrocket.

Jerry commented that come January 2005, when the load-balancing contract (2948A) with PG&E terminates, we could expect even larger increases. He said Western and Reclamation are considering several options for operating the CVP power function post 2004. He said that Western has published in the Federal Register "Operational Alternatives for Post 2004 Operations" that outlines the options being considered. Comments are due to Western by August 8, 2003. Jerry Toenyes said that a combination of options might be the best in terms of cost, such as going to a metered subsystem and/or joining with SMUD in an independent control area so as to avoid the CAISO and many of its layers of tariffs. He suggested that the CVP Water Association submit a letter to Western endorsing the NCPA proposal or sign-on as a co-signer. George will contact Barry Mortimeyer to get more information and Jerry will send the Federal Register notice to George for further dissemination.

6. **Fall Budget Process.** Ron commented that the FAC should get with Reclamation to get the spring and fall Reclamation Budget Workshops going again. Brice Bledsoe, Lynn Hurley, Frances Mizuno, Bob Stackhouse, and George agreed to meet with Reclamation to get the effort back on track. George was tasked with setting up such a meeting.

7. **Water Transfer Policy.**

A. Incremental Costs. Bob said that Donna Tegelman (MP-400) is heading a Reclamation team to define what incremental costs are as they apply to water transfers. The team has met once and has developed a draft paper on this issue. There is concern as to whether this draft has become policy as it has been referenced in several recent publications. Bob commented that to his knowledge, a water transfer policy document developed in 1993 still provides the official water transfer policy guidance, not the recent draft.

B. Project Use Power (PUP). Bob reported that Barry Mortimeyer has developed a draft Reclamation PUP policy paper. He said that the water and power contractors have met several times to develop recommendations relative to this draft policy paper and there was an attempt to develop and provide a joint recommendation letter to Reclamation from the water contractors and the preference power users, however that letter was never finalized, as there are still unresolved issues between the two groups. The group felt that Bob should draft a letter to Reclamation that provides the recommendation of the water contractors and circulate it to the FAC members for comment and revision. Once an agreed-upon letter is determined, it should be sent to Reclamation by the CVP Water Association. Hopefully, we will be able to reach common ground with the preference power users, but, if not, they will probably provide a separate letter to Reclamation with their recommendations, noting any common themes they have with the CVP water contractors.

8. **Arroyo Pasajero Detention Facility.** Len Marino, DWR and Dee Dillon, SWC presented an update on the San Luis Canal Arroyo Pasajero Program. Len is the DWR Program Manager for the Arroyo Pasajero project and Dee represents the State Water Contractors. Len provided a slide-based handout that covered his presentation. DWR is in the process of evaluating alternatives for providing a flood control structure and related facilities to eliminate the flooding problems in the arroyo. The existing detention facility has silted in over time and does not have the capacity to contain the flooding and preclude flood damage to adjoining croplands.

DWR has completed a draft feasibility study that is currently under review within the department. It has been sent to Reclamation for review and in late May, the South-Central California Area Office was briefed on the study. The study will be sent to interested CVP water contractors in the near future for their review and comment. The feasibility study separates the flood control solution into two phases—West Side Detention Basin Restoration and West Tulare Lake Flood Control Reservoir.

- Phase I essentially raises the crest elevation of the San Luis Canal embankment as well as other flood embankments on the west side of the San Luis Canal. Phase I would cost about \$12 million and provide a 50-year level of flood protection. Reclamation would consider these costs as conveyance capital expenditures and

would recover the federal share of the costs (45% federal, 55% state) over the remaining repayment period of the project (2030). These costs would not be expensed.

- Phase II would consist of building a 45,000 acre-feet West Tulare Lake reservoir to capture the flood water at an estimated cost of \$38 to \$44 million, to be recovered in the same manner as the Phase I costs. Phase II would provide a 100-year level of flood protection and could possibly provide some local water supplies in some years. DWR is also looking at the feasibility of an alternative to Phase II that was offered by the Westlands Water District (WWD). This proposal would spread the floodwater on retired agricultural land on the east side of the San Luis Canal within WWD. This proposal is attractive to DWR because, unlike the alternative Phase II, no additional land would have to be purchased.

9. **CVPIA 10-Year Status Report.** Jeff Phipps said that Reclamation has prepared two documents for review—Draft CVPIA 10-Year Report and Draft CVPIA 10 years of Progress—they can be found on the Reclamation website at www.usbr.gov/mp/. The drafts were placed on the Internet as part of the public review process. Comments are due back to Reclamation by August 18. Jeff said that a small group of interested water and power contractors have reviewed and provided comments on earlier drafts of the CVPIA 10-Year Report. They provided their final comments last September. After all their input they still feel that the report does not provide some of the needed answers—it tells what actions were taken, but does not relate the actions to program accomplishments, such as fish doubling, etc. The report does not identify the objectives from which to measure the activities already done. He suggests that the water contractor representatives review the drafts and provide comments through the CVPWA. More aggressive, single district or area-specific comments should be submitted in individual letters.
10. **Sacramento River Water Reliability Study.** Bob and Mike Hagman discussed the pre-scoping briefing they attended earlier in the week on the Sacramento River Water Reliability Study. Basically, the Study is an outgrowth of the Sacramento Water Forum and is investigating the alternatives of serving certain Placer County and Sacramento County future water needs from the Sacramento River. Scoping sessions are being planned for this Study in September.
11. **Reports of Ongoing FAC Interest Issues.**
 - A. **Status of Historical Contractor Accounting Reconciliation.** Reclamation has recently started moving on this task by contracting with SYS (Jim Bjornsen) to work on the historical reconciliation backlog. He is making good progress.
 - B. **Direct Funding Agreements.** Ron said that there was nothing new to report.
 - C. **Warren Act Revenues.** Ron said that there was nothing new to report.

D. Folsom Dam Raise and Folsom Bridge. It was agreed that we would keep an eye on these developments and make sure that related legislation emphasizes that such costs should be allocated to a non-reimbursable cost category (probably flood control or security).

12. **FAC Structure.** Ron commented that his Friant workload is currently keeping him from fulfilling his responsibilities to the FAC as the Chairman. He said his plate will be very full for at least the next two-three months and suggested that we fill his chair position, at least temporarily, by someone else on the FAC. Brice Bledsoe offered to fill in as necessary and was unanimously accepted by the group.